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CC COMMUNICATIONS – TELEPHONE
CHURCHILL COUNTY, NEVADA

JUNE 30, 2012 AND 2011

CC COMMUNICATION – TELEPHONE
CHURCHILL COUNTY, NEVADA

JUNE 30, 2012 AND 2011

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KAFOURY, ARMSTRONG & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Honorable Board of Commissioners of
Churchill County, Nevada

We have audited the accompanying basic financial statements of CC Communications - Telephone Fund of Churchill County, Nevada, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of Churchill County, Nevada's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the CC Communications - Telephone Fund and do not purport to, and do not, present fairly the financial position of Churchill County, Nevada, as of June 30, 2012 and 2011, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CC Communications - Telephone Fund of Churchill County, Nevada, as of June 30, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress – Other Postemployement Benefit Plans on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affect by the missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise CC Communications - Telephone Fund of Churchill County, Nevada's basic financial statements. The schedule of revenue, expenses, and changes in net assets – budget and actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of revenue, expenses, and changes in net assets – budget and actual has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of revenue, expenses, and changes in net assets – budget and actual is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kafoury, Armstrong & Co.

Fallon, Nevada
October 17, 2012

CC COMMUNICATIONS - TELEPHONE
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and investments	$6,877,159	$12,438,546
Telecommunications accounts receivable, net	751,623	1,193,082
Other accounts receivable, net	1,094,163	404,353
Due from other funds	537,382	504,447
Inventory of materials and supplies	1,150,343	963,413
Prepaid expenses	15,838	28,998
Total Current Assets	10,426,508	15,532,840
Noncurrent Assets:		
Telecommuncations plant:		
In service and depreciable	80,147,765	72,564,635
Under construction and not being depreciated	421,897	2,611,081
	80,569,662	75,175,716
Less: Accumulated depreciation	36,925,098	36,963,480
Total Noncurrent Assets	43,644,564	38,212,236
Total Assets	54,071,072	53,745,075
LIABILITIES		
Current Liabilities:		
Accounts payable	370,049	833,533
Customer deposits	32,935	32,175
Capital lease payable	67,449	67,450
Compensated absences	65,635	65,635
Other accrued liabilities	313,930	274,715
Total Current Liabilities	849,998	1,273,508
Noncurrent Liabilities:		
Other postemployment benefits liability	908,911	735,369
Capital lease payable	1,039,522	1,113,213
Compensated absences	610,947	569,979
Total Noncurrent Liabilities	2,559,380	2,418,561
Total Liabilities	3,409,378	3,692,069
NET ASSETS		
Invested in capital assets, net of related debt	42,537,593	37,031,573
Unrestricted	8,124,101	13,021,433
Total Net Assets	$50,661,694	$50,053,006

See accompanying notes.

CC COMMUNICATIONS - TELEPHONE
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUE		
Local network services	$ 3,025,815	$ 3,217,035
Network access services	4,395,637	5,023,974
Interstate pooling revenue	3,984,915	3,325,872
Miscellaneous revenue	775,694	906,850
Uncollectible revenue	(9,062)	(17,172)
Total Operating Revenue	12,172,999	12,456,559
OPERATING EXPENSES		
Plant specific operations	2,249,614	2,276,111
Plant nonspecific operations	1,406,256	1,340,354
Customer operations	1,017,305	1,053,148
Corporate operations	2,185,328	2,272,442
Payments to County in lieu of taxes	1,256,365	1,351,558
Depreciation and amortization	2,844,203	2,529,728
Total Operating Expenses	10,959,071	10,823,341
Operating Income (Loss)	1,213,928	1,633,218
NONOPERATING REVENUE (EXPENSE)		
Nonregulated:		
Nonregulated income	814,956	700,180
Nonregulated expense	(546,398)	(408,980)
Payments to County in lieu of taxes and other costs	(1,186,115)	(832,515)
Interest income	16,397	16,673
Interest expense	(44,887)	(46,299)
Miscellaneous income	1,423	1,368
Donation of community emergency services	(33,000)	(103,207)
Total Nonoperating Revenue (Expense)	(977,624)	(672,780)
Income (Loss) Before Contributions and Transfers	236,304	960,438
Capital contributions	372,384	-
Transfers:		
CC Communications - Wireless	-	12,000,000
CC Communications - Long Distance	-	2,200,000
Changes in Net Assets	608,688	15,160,438
NET ASSETS, July 1	50,053,006	34,892,568
NET ASSETS, June 30	$ 50,661,694	$ 50,053,006

See accompanying notes.

CC COMMUNICATIONS - TELEPHONE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Page 1 of 2)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 11,893,741	$ 12,604,582
Cash payments to employees	(4,427,195)	(4,463,478)
Cash payments for services and supplies	(4,058,387)	(3,545,413)
Cash payments for nonregulated activities	(912,678)	(541,315)
Net Cash Provided by Operating Activities	2,495,481	4,054,376
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Donation of community emergency services	(33,000)	(103,207)
Transfer from CC Communications - Long Distance	-	2,200,000
Transfer from CC Communications - Wireless	-	12,000,000
Net Cash Provided by (Used for)Noncapital Financing Activities	(33,000)	14,096,793
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of telecommunications plant	(8,237,092)	(7,372,258)
Proceeds from sale of capital assets	329,952	65,100
Demolition costs of disposing of capital assets	(16,767)	(27,984)
Principal payment on long-term debt	(73,693)	(71,078)
Interest payment on long-term debt	(42,820)	(46,331)
Net Cash (Used for) Capital and Related Financing Activities	(8,040,420)	(7,452,550)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	16,552	16,180
Net Increase (Decrease) in Cash and Cash Equivalents	(5,561,387)	10,714,799
CASH AND CASH EQUIVALENTS, July 1	12,438,546	1,723,747
CASH AND CASH EQUIVALENTS, June 30	$ 6,877,159	$ 12,438,546

CC COMMUNICATIONS – TELEPHONE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Page 2 of 2)

	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	$1,213,928	$ 1,633,218
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization - regulated plant	2,844,203	2,529,728
Nonregulated nonoperating expenses	(912,678)	(541,315)
Miscellaneous income	1,423	1,368
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(248,505)	60,203
Due from other funds	(32,936)	84,737
Inventory of materials and supplies	(172,048)	107,670
Prepaid expenses	13,160	(28,998)
Increase (Decrease) in:		
Accounts payable	(463,484)	(23,375)
Customer deposits	760	1,715
Other accrued liabilities	37,148	35,470
Other postemployment benefits liability	173,542	195,582
Compensated absences	40,968	(1,627)
Net Cash Provided by Operating Activities	$2,495,481	$ 4,054,376
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Noncash asset acquired	$ 372,384	$ -

See accompanying notes.

CC COMMUNICATIONS – TELEPHONE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 – Summary of Significant Accounting Policies:

CC Communications – Telephone, an enterprise fund of Churchill County, Nevada, was created in 1889 to account for telephone service to Churchill County. CC Communications – Telephone is subject to the Nevada Revised Statutes and is regulated by the Federal Communications Commission. Churchill County operates under a three-member board of commissioners' form of government.

Reporting Entity:

CC Communications – Telephone's financial statements are included in the financial statements of Churchill County, Nevada. These financial statements include solely the activities of CC Communications – Telephone.

Fund Accounting:

CC Communications – Telephone's financial activities are accounted for in a proprietary fund. A proprietary fund accounts for operations that are financed and operated in a manner similar to those found in the private business sector, where the costs of providing goods or services to the general public on a continuing basis are recovered primarily through user charges. All assets and liabilities (whether current or noncurrent) associated with the fund's activity are included on its statement of net assets. The reported net assets are segregated into invested in capital assets, net of related debt, and unrestricted components.

Basis of Accounting:

The financial statements of CC Communications – Telephone are prepared in conformity with accounting principles generally accepted in the United States of America applicable to regulated utilities, utilizing the uniform system of accounts prescribed by the Federal Communications Commission for telecommunications companies. CC Communications – Telephone maintains its accounting records using the economic resources measurement focus and the accrual basis of accounting wherein revenue is recognized when earned and expenses are recognized at the time liabilities are incurred regardless of the timing of the related cash flows. CC Communications – Telephone applies all applicable FASB pronouncements in accounting and reporting for its operations, except for those that conflict with or contradict GASB pronouncements.

Budgets and Budgetary Accounting:

CC Communications – Telephone adheres to the Local Government Budget and Finance Act incorporated within state statutes, which includes the following major procedures to establish the budgetary data, which is reflected in the supplementary schedule.

1. On or before April 15, the Churchill County Board of Commissioners files a tentative budget with the Nevada Department of Taxation.

2. Public hearings on the tentative budget are held on the third Monday in May.

3. Prior to June 1, at a public hearing, the Board indicates changes, if any, to be made to the tentative budget and adopts a final budget by the favorable vote of a majority of the members of the Board. The final budget must then be forwarded to the Nevada Tax Commission for final hearings and approval.

4. Formal budgetary integration in the financial records is employed to enhance management control during the year.

5. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. Appropriations lapse at year-end.

6. In accordance with state statute, actual expenses may not exceed appropriations.

The budget amounts reflected in the financial statements have been amended from the original amounts in accordance with state statue.

Accounts Receivable:

The allowance method is used to provide for estimated uncollectible accounts. The allowance at June 30, 2012 and 2011 was $1,271 and $8,477, respectively, for telecommunications accounts receivable and $684, for other accounts receivables at both June 30, 2012 and 2011.

Inventory of Materials and Supplies:

New material and supplies and reusable salvaged material are carried in inventory at average cost approximating market value.

Capital Assets:

Capital assets are stated at original cost and include improvements that significantly add to the useful life. Costs of maintenance and repair are charged to operations as incurred. For regulated capital assets, in accordance with the requirements of the uniform system of accounts prescribed by the Federal Communications Commission and generally accepted accounting practices in the industry, upon retirement of telecommunications plant, related costs are removed from the plant accounts and charged to the accumulated depreciation accounts. All costs of plant removal are likewise charged to the accumulated depreciation accounts. Any salvage realized from the retirement or disposal of telecommunications plant is credited to the related accumulated depreciation accounts, and no gain or loss on the disposition of such plant is reflected in the financial statements. For non-regulated capital assets, gain or loss upon sale or disposal is recorded following generally accepted accounting principles.

In accordance with the Federal Communications Commission's 47 C.F.R. Part 32 – Uniform System of Accounts for Telecommunications Companies, the capitalization threshold is $2,000 except for computer equipment which is $500.

Depreciation Policy:

Depreciation is provided for financial reporting purposes using straight-line composite rates, which will amortize the depreciable telecommunications plant over their estimated useful life from three to forty years.

Interexchanged Revenue:

CC Communications – Telephone is operating under various settlement/compensation agreements with connecting carriers and the National Exchange Carrier Association (NECA), whereby interexchanged revenue is settled between the connecting carriers and NECA based on tariffs, contracts and cost studies. CC Communications – Telephone receives interim monthly revenue settlements from NECA based upon cost studies performed at the end of each calendar year for this system and all other carriers participating in the NECA revenue pool. Interim settlements are subject to retroactive adjustments at any point in time, based upon cost and revenue data submitted to NECA by all members of the pool, on the basis of a 24-month "look back". This means that 24 months must elapse before actual revenue settlements for any particular month are finally determined. It is CC Communications – Telephone's policy to record revenue accruals from NECA at the end of each fiscal year based upon the most current information available at the time, and to reflect any retroactive adjustments related to prior years in the operating results of the year when such adjustments became known.

Cash and Cash Equivalents:

Cash balances from some funds of Churchill County are combined and, to the extent practicable, invested as permitted by law (NRS 355.170)

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, all highly liquid debt instruments with original maturities of three months or less and investments in pool accounts which are available upon request.

Compensated Absences:

Compensated absences are absences for which employees will be paid, such as vacation leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of CC Communications enterprises funds (Telephone, Wireless, Long Distance, and Broadband) or their employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of CC Communications enterprise funds or their employees are accounted for in the period in which such services are rendered or such events take place. The expense for compensated absences is borne by all CC Communications enterprise funds; however, the outstanding liability is recorded in the CC Communications – Telephone Fund because the other CC Communications enterprise funds pay CC Communications – Telephone Fund for their respective share of the expense.

Operating Revenue and Expenses:

Operating revenue are those revenues that are generated directly from the telephone service activity of CC Communications – Telephone. Operating expenses are the necessary regulated costs incurred to provide telephone service. Regulated costs are associated with the tariff filing requirements contained in Title II of the Communications Act of 1934, as amended. Revenues and expenses not meeting these definitions are reported as nonoperating.

Payments in Lieu of Taxes:

CC Communications – Telephone Fund makes payments in lieu of taxes to governmental funds of Churchill County. These payments are based on a percentage of CC Communications – Telephone Fund's net assets for the previous fiscal year. Federal Communications Commission (FCC) regulations allow other taxes (including property, gross receipts, franchise and capital stock taxes) to be charged to operation and non-operating revenues. The County believes that these charges represent an in lieu of tax. As CC Communications – Telephone Fund financial statements are prepared in conformity with accounting principles generally accepted in the United States of America applicable to regulated utilities, utilizing the uniform system of accounts prescribed by the Federal Communications Commission for telecommunications companies, the payments in lieu of taxes for regulatory purposes in the amount of $1,256,365 for 2012 and $1,351,558 for 2011 are reported as operating expense, while the remaining payments in lieu of taxes of $1,186,115 for 2012 and $832,515 for 2011 are reported as a non-operating expense.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates based on management's knowledge and experience. Due to their prospective nature, actual results could differ from those estimates.

Subsequent Events:

Management has evaluated subsequent events through October 17, 2012, which is the date these financial statements were available to be issued and these financial statements have not been updated for subsequent events occurring after that date.

NOTE 2 - Compliance:

There were no instances of non-compliance reported in 2012.

Actual operating expenses exceeded appropriations by $130,073 for June 30, 2011. This is a violation of NRS 354.626.

CC COMMUNICATIONS – TELEPHONE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 3 - Cash and Investments:

The following schedule summarized cash and investments for CC Communications – Telephone Fund at June 30, 2012 and 2011:

Balances at Fair Value Classified by:		
Wells Fargo	2012	2011
Bank checking	$ 13,769	$ 588,252
Choice IV	3,948,783	6,940,842
Local Government Investment Pool	2,913,117	4,907,962
Petty Cash	1,490	1,490
Total Cash and Investments	$6,877,159	$ 12,438,546

As of June 30, 2012, CC Communications – Telephone Fund had the following investments and maturities:

Investments	Maturities	Fair Value
State of Nevada Investment Pool	114 days*	$ 2,913,117

As of June 30, 2011, CC Communications – Telephone Fund had the following investments and maturities:

Investments	Maturities	Fair Value
State of Nevada Investment Pool	69 days*	$ 4,907,962

*represents average weighted maturity

CC Communications – Telephone Fund is a voluntary participant in the State of Nevada Local Government Investment Pool (LGIP), which has regulatory oversight from the State of Nevada Board of Finance. CC Communications – Telephone Fund investment in LGIP is equal to its original investment plus monthly allocation of interest and realized and unrealized gains and losses, which is the same as the value of pool shares. CC Communications – Telephone Fund investment in the LGIP is reported at fair value.

Nevada Revised Statutes 355.170 sets forth acceptable investments for Nevada local governments. CC Communications – Telephone Fund has not adopted a formal investment policy that would further limit its exposure to certain risks as set forth below:

Interest Rate Risk. Interest rate risk is the risk of possible reduction in the value of a security, especially a bond, resulting from a rise in interest rates. As noted above, the District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates beyond those specified in the statute.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation and is a function of the credit quality ratings of its investments. The State of Nevada Investment Pool is unrated and, as noted above, the CC Communications – Telephone Fund does not have a formal investment policy that specifies minimum acceptable credit ratings.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the CC Communications – Telephone Fund's deposits may not be returned. CC Communications – Telephone Fund's bank deposits are covered by FDIC insurance and collateralized by the Office of the State Treasurer/Nevada Collateral Pool.

CC COMMUNICATIONS – TELEPHONE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 4 – Capital Assets:

A summary of changes in capital assets for the year ended June 30, 2012 follows:

	Balance 7/1/2011	Additions	Deletions	Balance 6/30/2012
Capital assets, not being depreciated:				
Real estate and easements	$ 55,813	$ -	$ -	$ 55,813
Construction in progress	2,558,268	366,084	2,558,268	366,084
Total Capital Assets, Not Being Depreciated	2,611,081	366,084	2,558,268	421,897
Capital assets being depreciated:				
Regulated:				
Buildings and improvements	5,415,249	13,543	-	5,428,792
Central office switching	16,828,069	1,638,136	95,404	18,370,801
Outside plant	41,431,868	7,790,503	407,728	48,814,643
Furniture and fixtures	41,926	-	-	41,926
Computer equipment	3,310,139	1,139,503	1,851,557	2,598,085
Other communication equipment	315,884	-	3,021	312,863
Vehicles and work equipment	2,678,342	-	14,066	2,664,276
Leasehold improvements	758,621	41,973	-	800,594
Nonregulated:				
Leased equipment	1,784,537	175,002	843,754	1,115,785
Total Capital Assets Being Depreciated	72,564,635	10,798,660	3,215,530	80,147,765
Total Capital Assets	75,175,716	11,164,744	5,770,798	80,569,662
Less accumulated depreciation for:				
Regulated:				
Buildings and improvements	(3,449,730)	(317,259)	-	(3,766,989)
Central office switching	(11,936,899)	(888,413)	90,555	(12,734,757)
Outside plant	(13,384,711)	(1,382,222)	79,631	(14,687,302)
Furniture and fixtures	(41,926)	-	-	(41,926)
Computer equipment	(3,310,139)	(132,268)	1,851,557	(1,590,850)
Other communication equipment	(315,884)	-	3,020	(312,864)
Vehicles and work equipment	(2,415,201)	(67,892)	14,068	(2,469,025)
Leasehold improvements	(324,453)	(51,270)	-	(375,723)
Nonregulated:				
Leased equipment	(1,784,537)	(4,879)	843,754	(945,662)
Total Accumulated Depreciation	(36,963,480)	(2,844,203)	2,882,585	(36,925,098)
Total Capital Assets, Net	$38,212,236	$ 7,954,457	$ 8,680,083	$43,644,564

CC COMMUNICATIONS – TELEPHONE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

A summary of changes in capital assets for the year ended June 30, 2011 follows:

	Balance 7/1/2010	Additions	Deletions	Balance 6/30/2011
Capital assets, not being depreciated:				
Real estate and easements	$ 55,813	$ -	$ -	$ 55,813
Construction in progress	1,204,209	2,555,268	1,204,209	2,555,268
Total Capital Assets, Not Being Depreciated	1,260,022	2,555,268	1,204,209	2,611,081
Capital assets being depreciated:				
Regulated:				
Buildings and improvements	5,400,483	14,767	-	5,4215,249
Central office switching	19,905,178	1,055,173	4,132,282	16,828,069
Outside plant	36,657,880	4,809,178	35,190	41,431,868
Furniture and fixtures	41,926	-	-	41,926
Computer equipment	3,254,322	55,817	-	3,310,139
Other communication equipment	315,884	-	-	315,884
Vehicles and work equipment	2,704,862	86,264	112,784	2,678,342
Leasehold improvements	758,621	-	-	758,621
Nonregulated:				
Leased equipment	1,784,537	-	-	1,115,787
Paystations and booths	20,512	-	20,512	-
Total Capital Assets Being Depreciated	70,884,205	6,021,200	4,300,769	72,564,636
Total Capital Assets	72,104,277	8,576,468	5,504,978	75,175,717
Less accumulated depreciation for:				
Regulated:				
Buildings and improvements	(3,133,570)	(316,160)	-	(3,449,730)
Central office switching	(15,274,384)	(744,165)	4,081,650	(11,936,899)
Outside plant	(12,153,127)	(1,279,890)	48,706	(13,384,711)
Furniture and fixtures	(41,926)	-	-	(41,926)
Computer equipment	(3,243,710)	(66,429)	-	(3,310,139)
Other communication equipment	(315,884)	-	-	(315,884)
Vehicles and work equipment	(2,455,475)	(72,510)	112,784	(2,415,201)
Leasehold improvements	(273,879)	(50,574)	-	(324,4543)
Nonregulated:				
Leased equipment	(1,784,537)	-	-	(1,784,537)
Paystations and booths	(20,512)	-	20,512	-
Total Accumulated Depreciation	(38,697,404)	(2,529,728)	4,263,651	(36,963,480)
Total Capital Assets, Net	$33,406,823	$ 6,046,740	$ 1,241,327	$38,212,236

NOTE 5 – Long-term Debt:

Long-term debt consists of the following at June 30, 2012:

Payee	Date Issues	Date of Maturity	Interest Rate	Amount Issued	Balance June 30, 2012	Balance June 30, 2011
Capital Lease Payable:			Imputed			
Louie's Home Center, Inc.			at			
	11/6/2003	11/1/2029	3.62%	1,623,575	$1,106,971	$1,180,663

Summary of debt service requirements to maturity:

Capital Lease Payable:

Year Ending June 30	Remaining Payments	Less Amount Representing Interest	Present Value of Net Minimum Lease Payments
2013	$ 110,973	$ 41,042	$ 67,449
2014	121,293	42,317	78,976
2015	88,296	34,715	53,581
2016	81,696	31,908	49,788
2017-2021	408,480	130,677	277,803
2022-2026	408,480	75,674	332,806
2027-2030	258,705	14,619	244,086
Total	$ 1,477,923	$ 370,952	$ 1,106,971

Changes in Long-term Debt at June 30, 2012:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Capital lease payable	$ 1,180,663	$ -	$ 73,692	$ 1,106,971	$ 67,449
Compensated absences	635,614	639,671	598,703	676,582	65,635
	$ 1,816,277	$ 639,671	$ 672,395	$ 1,783,553	$ 133,084

Changes in Long-term Debt at June 30, 2011:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Capital lease payable	$ 1,251,741	$ -	$ 71,078	$ 1,180,663	$ 67,450
Compensated absences	637,241	550,727	552,354	635,614	65,635
	$ 1,888,982	$ 550,727	$ 623,432	$ 1,816,277	$ 133,085

The asset acquired through the capital lease is a building. As of June 30, 2012 and June 30, 2011, the capital asset of $1,623,575 was offset by accumulated depreciation of $829,827 and $721,589, respectively.

NOTE 6 – Defined Benefit Pension Plan:

Plan Description: CC Communications enterprise funds (Telephone, Wireless, Long Distance, and Telephone) contribute to the Public Employees Retirement System of the State of Nevada (PERS), a cost sharing, multiple employer, defined benefit plan administered by the Public Employees Retirement System of the State of Nevada. PERS provides retirement benefits, disability benefits, and death benefits, including annual cost of living adjustments, to plan members and their beneficiaries. Chapter 286 of the Nevada Revised Statutes establishes the benefit provisions provided to the participants of PERS. These benefit provisions may only be amended through legislation. The Public Employees Retirement System of the State of Nevada issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System of the State of Nevada, 693 West Nye Lane, Carson City, Nevada 89703-1599 or by calling (775) 687-4200.

Funding Policy: Plan members are funded under the employer paid contribution plan: under this method, CC Communications enterprise funds are required to contribute all amounts due under the plan. The contribution requirements of plan members and CC Communications enterprise funds are established by Chapter 286 of Nevada Statues. CC Communications enterprise fund's contribution rates and amounts contributed equal to required contributions for the last three years are as follows:

Fiscal year	Contribution Rate Regular Member	Total Contribution
2011-12	23.75%	$1,202,541
2010-11	21.50%	$1,121,233
2009-10	21.50%	$1,097,847

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NOTE 7 – Postemployment Health Care Plans:

Plan Descriptions: CC Communications administers a single-employer defined benefit healthcare plan, CC Communications' Employee Health Benefits Plan (CCCEHBP). Additionally, the County contributes to an agent multiple-employer defined benefit postemployment healthcare plan, Public Employees' Benefits Plan (PEBP). Each plan provides medical, vision, dental, life insurance benefits to eligible retires CC Communications' employees and beneficiaries.

Benefit provisions for the CCCEHBP are established pursuant to NRS 287.023 and amended through negotiations between CC Communications and their employee association. NRS 288.150 assigns the authority to establish benefit provisions to the Board of Trustees. The plan provides healthcare insurance for eligible retirees their beneficiaries through CC Communications' group health insurance plan, which covers both active and retires members.

Under NRS 287.023, eligible retirees are able to participate in the plan with blended rates, thereby benefitting from an implicit subsidy. Retirees are required to pay 100% of their premiums under the plan. As of June 30, 2012 and June 30, 2011, 17 and 14 retirees, respectively were using this plan. The CCCEHBP does not issue a publicly available financial report.

Benefits provisions for the PEBP are administered by the State of Nevada. NRS 287.043 assigns the authority to establish and amend benefit provisions to the PEBP nine-member board of trustees. CC Communications' employees who met the eligibility requirements effective September 1, 2008 for retirement within the Nevada Public Employee Retirement system had the option upon retirement to enroll in coverage under the PEBP. NRS 287.023 sunsetted the option to join PEBP for CC Communications' employees who retired after November 29, 2008. Local governments are required to pay the same portion of the cost of coverage for their retirees joining PEBP that the State of Nevada pays for state retirees participating in the plan. As of June 30, 2012 and June 30, 2011, 57 and 60 CC Communications' retirees, respectively, were utilizing this benefit.

Funding Policy: For CCCEHBP, contribution requirements of the plan members and CC Communications are established and may be amended through negotiations between CC Communications and the association. Retirees pay 100% of the pay-as-you-go premiums based on a blended rate that blends active participants and retirees. CC Communications contribution requirements for retirees relate to the implicit subsidy that results from using the blended rates and is determined in actuarial studies contracted for by CC Communications. The implicit subsidy as determined by the actuary is $12,929. CC Communications did not prefund any future benefits.

For the PEBP, NRS 287.046 establishes the subsidies to be contributed toward the premium costs of the eligible retired CC Communications' employees. The contribution requirements of the plan members and CC Communications may be amended by the PEBP board. Premium rates determined by PEBP are the same for all participating members. The unsubsidized nonstate retiree plan health premiums in effect for fiscal year 2012 and 2011 ranged from $474 to $1,663 and $321 to $846, respectively, depending on the type of plan chosen. Plan members receiving

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JUNE 30, 2012 AND 2011

benefits have their monthly contribution deducted from their pension checks based on the health plan chosen by the retiree, as reduced by the amount of the subsidy; therefore, their contributions are not available. For the plan year ended June 30, 2012, retirees qualified for a subsidy of $96 at five years of service and $575 at twenty years of service, with incremental increases for years of service in between. For the plan year ended June 30, 2011, retirees qualified for a subsidy of $76 at five years of service and $436 at twenty years of service, with incremental increases for years of service in between. As a participating employer, CC Communication is billed for the subsidy on a monthly basis and is legally required to provide for it. For fiscal year 2012, CC Communications contributed $291,370 to the plan, equal to the required contributions. CC Communications did not prefund future benefits.

Annual OPEB Cost and Net OPEB Obligation. CC Communications' annual other postemployment benefit (OPEB) cost (expense) for the plans is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

CC Communications' annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligations, by plan, for current year and two previous fiscal years were as follows:

	Fiscal Year End	Annual OPEB Cost (Entry Age Normal Cost Method)	Employer Contributions	Percentage of Annual OPEB Contributed	Net OPEB Obligation
CCCEHBP	30-Jun-12	$ 139,204	$ 12,929	9%	$ 628,783
PEBP	30-Jun-12	377,875	291,370	77%	548,747
		$ 517,079	$ 304,299		$ 1,177,530
CCCEHBP	30-Jun-11	$ 132,047	$ 14,550	11%	$ 502,508
PEBP	30-Jun-11	379,204	273,588	72%	454,831
		$ 512,014	$ 288,138		$ 957,339
CCCEHBP	30-Jun-10	$ 125,353	$ 16,197	13%	$ 385,011
PEBP	30-Jun-10	381,445	259,760	68%	348,452
		$ 506,798	$ 275,957		$ 733,463

The net OPEB obligation (NOPEBO) as of June 30, 2012, was calculated as follows:

June 30, 2012	CCCEHBP	PEBP	Total
Annual Required Contribution (ARC)	$ 148,164	$ 386,117	$ 534,281
Interest on net OPEB obligation	20,100	18,490	38,590
Adjustment to annual required contribution	(29,060)	(19,321)	(48,381)
Annual OPEB cost	139,204	385,286	524,490
Less: Contributions made	12,929	291,370	304,299
Increase in net OPEB obligation	126,275	93,916	220,191
Net OPEB obligation - beginning of the year	502,508	454,834	957,339
Net OPEB obligation - end of year	$ 628,783	$ 548,747	$ 1,177,530

June 30, 2011	CCCEHBP	PEBP	Total
Annual Required Contribution (ARC)	$ 138,912	$ 386,181	$ 25,093
Interest on net OPEB obligation	15,400	13,938	29,338
Adjustment to annual required contribution	(22,265)	(20,151)	(42,416)
Annual OPEB cost	132,047	379,968	512,015
Less: Contributions made	14,550	273,588	288,138
Increase in net OPEB obligation	117,497	106,380	223,877
Net OPEB obligation - beginning of the year	385,011	348,451	733,462
Net OPEB obligation - end of year	$ 502,508	$ 454,831	$ 957,339

CC Communications – Telephone Fund's portion of the CC Communications' OPEB liability as of June 30, 2012 and 2011 was $ 908,911 and $ 735,369, respectively, based on salaries.

Funded Status and Funding Progress: The funded status of the plans as of June 30, 2012 and 2011 was as follows:

	CCCEHBP	PEBP	Total
Accrued value of plan assets (a)	$ 1,179,311	$6,810,813	$7,990,124
Actuarial actuarial liability (b)	-	-	-
Unfunded Actuarial Accrued Liability (a) - (b)	$1,179,311	$6,810,813	$7,990,124
Funded Ratio (b) / (a)	0%	0%	0%
Covered payroll (c)	$5,317,602	N/A	
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll ([(a) - (b)] / (c))	22%	N/A	

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between CC Communications and plan members to that point. Actuarial calculations reflect long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets.

Significant methods and assumptions used in the January 1, 2010 actuarial valuation were as follows:

	CCEHBP	PEBP
Actuarial valuation date	January 1, 2010	January 1, 2010
Actuarial cost method	Entry Age Normal Cost	Entry Age Normal Cost
Amortization method	Level Dollar Amount	Level Dollar Amount
Amortization period (open)	30 Years	30 Years
Asset valuation method	Market Value	Market Value
Actuarial Assumptions:		
Investment rate of return	4%	4%
Projected overall salary increase	4%	4%
Medical Healthcare inflation rate*	8%	8%

*Decreasing 1% each year until ultimate trend rate of 5% is reached in 2014

NOTE 8 – Related Party Transactions:

The CC Communications – Wireless (Wireless Fund), CC Communications – Long Distance (Long Distance Fund), and CC Communications – Broadband (Broadband Fund), other enterprise funds of Churchill County, rent office and other facility space from CC Communications – Telephone (Telephone Fund) on a month-to-month basis.

Following is a schedule of related party transactions received by the Telephone Fund for the year ended June 30, 2012.

	Wireless Fund	Long Distance Fund	Broadband Fund	Total
Special Access/DSL Lines	$ -	$ -	$ 26,638	$ 26,638
Billing & Collection Services	121,256	129,988	129,981	381,225
Rent	14,400	-	6,000	20,400
Customer Services	376,025	36,414	249,411	661,850
Administrative Costs	81,478	19,466	132,539	233,482
Installation	-	-	51,258	51,258
Engineering & Maintenance	-	-	81,313	81,313
	$ 593,159	$ 185,868	$ 677,140	$ 1,456,166

Following is a schedule of related party transactions received by the Telephone Fund for the year ended June 30, 2011.

	Wireless Fund	Long Distance Fund	Broadband Fund	Total
Special Access/DSL Lines	$ -	$ -	$ 23,676	$ 23,676
Billing & Collection Services	119,755	130,022	111,990	361,767
Rent	14,400	-	6,000	20,400
Customer Services	360,987	39,210	193,707	593,904
Administrative Costs	71,450	19,153	55,671	146,274
Installation	-	-	29,764	29,764
Engineering & Maintenance	-	-	186,593	186,593
	$566,592	$ 188,385	$ 607,401	$ 1,362,379

Telephone Fund paid the Wireless Fund $29,546 and $33,274 for cellular phone service fees during the year ended June 30, 2012 and 2011, respectively.

Telephone Fund paid the Broadband Fund $9,871 and $10,261 for tower/space rent during the year ended June 30, 2012 and 2011, respectively.

CC Communications – Wireless, Long Distance, and Broadband Funds revenues are billed in conjunction with CC Communications – Telephone Fund's customers. At the time the revenue is earned the Telephone Fund transfers cash to the Wireless, Long Distance, and Broadband Funds for the amount of the earnings. In addition, the Telephone Fund processes and pays all Wireless, Long Distance, and Broadband Funds accounts payable and payroll expenses. At the time the expense is incurred, the Wireless, Long Distance, and Broadband Funds record a due to the Telephone Fund, therefore no payables or accruals are recorded on the Wireless, Long Distance, and Broadband Fund's financial statements, except for the accrual for *Net Other Post Employment Benefits Obligation* which is recorded by the Wireless, Long Distance, and Broadband Fund due to the fact the liability is not anticipated to be liquidated within the current period. The above transactions resulted in a due from other funds at June 30, 2012 and 2011 as follows:

	2012	2011
CC Communications – Wireless	$ 284,792	$ 241,855
CC Communications – Long Distance	36,988	46,042
CC Communications – Broadband	215,602	216,550
Due from other funds	$ 537,382	$ 504,447

NOTE 9 – Operating Leases:

CC Communications – Telephone is a party to various right-of-way grants and rental agreements for transmittal site locations. The lease payments on these agreements are determined annually. CC Communications – Telephone subleases a portion of these facilities to other entities.

CC Communications – Telephone is a party to the right-of-way agreement with Union Pacific Railroad. CC Communications – Telephone valued the right of way for the fiber to Reno project at $659,904, consisting of both cash and fiber given to Union Pacific Railroad. The agreement is a non-cancelable 30 year lease with no future payments to Union Pacific unless renewed after the initial 30 year lease.

NOTE 10 – Risk Management and Concentration of Credit Risk:

Nevada Public Agency Insurance Pool:

The County is exposed to various risks of loss related to torts; theft to, damage to, and destruction of assets;, errors and omissions; injuries of employees; and natural disasters as are all entities. CC Communications is included in the County's coverage, as described below.

The County has joined together with similar public agencies (cities, counties, school districts, county-owned hospitals and special districts) throughout the State of Nevada to create a pool under the Nevada Interlocal Cooperation Act. The Nevada Public Agency Insurance Pool (the "Pool") is a public entity risk pool currently operating as a common risk management and insurance program for its members.

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NOTES TO FINANCIAL STATEMENTS
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The County pays an annual premium and specific deductibles, as necessary, to the Pool for its general insurance coverage. The Pool is considered a self-sustaining risk pool that will provide liability coverage for its members up to $10,000,000 per event and a $10,000,000 general aggregate per member. Property, crime and equipment breakdown coverage is provided to its members up to $300,000,000 per loss with various sublimits established for earthquake, flood, equipment breakdown, and money and securities.

The County pays premiums based on payroll costs to the PACT. CC Communications – Telephone Fund is allocated a portion of the premium expense based on the individual funds payroll costs in proportion to the County as a whole. The PACT is considered a self-sustaining pool that will provide coverage based on established statutory limits.

Maximum coverage is as follows:

Property/Crime/Equipment:		
Blanket limit per schedule Of locations	$300,000,000	Per loss
Sub-limit for earthquake coverage	100,000,000	Annual aggregate
Sub-limit for flood coverage	100,000,000	Annual aggregate
Sub-limit for flood coverage zone A	10,000,000	Annual aggregate
Sub-limit for equipment breakdown, Boiler, and machinery	60,000,000	Each accident
Sub-limit for money and securities	500,000	Each loss
Casualty:		
Bodily injury, property damage, personal injury, employment based benefits administration	10,000,000	Per event
Law enforcement activities, and wrongful acts	10,000,000	Annual aggregate

The County continues to carry commercial insurance for other risks of loss, including specific risks of loss not covered by the Pool and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

<u>Public Agency Compensation Trust:</u>

The County has entered into an agreement with PACT (Public Agency Compensation Trust), a self-insured association for workers' compensation coverage. The purpose of the County's participation is to enhance its ability to control costs and to better serve and protect its employees.

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PACT is bound by statue as defined in NRS 616A-616D. The County pays an annual assessment to PACT based on a percentage of its annual remuneration. There is a pooled self-insured retention of $500,000 for each and every loss and/or claim. The indemnity above and beyond the retention amount for each accident or each employee for disease is covered by excess insurance. There is no deductible amount paid by the County for each accident/loss.

Limits of liability afforded to PACT members, subject to the application for coverage, are as follows:

Workers' compensation each accident or disease	$ Statutory
Employers liability each accident or disease	$2,000,000

Concentration of Credit Risk:

Credit is granted to customers, substantially all of whom are located in Churchill County, Nevada.

Billings to the Naval Air Station – Fallon for the year ended June 30, 2012 and 2011, represented 5.3% and 5.3% of total revenue, respectively.

CC COMMUNICATIONS - TELEPHONE
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012 AND 2011

SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFIT PLANS

	ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (AAL) - ENTRY AGE NORMAL COST (b)	UNFUNDED AAL (UAAL) (b - a)	FUNDED RATIO (a/b)	COVERED PAYROLL* (c)	UAAL AS A PERCENTAGE OF COVERED PAYROLL ([b - a]/c)
CCCEHBP	January 1, 2010	$ -	$1,179,311	$1,179,311	0%	$5,317,602	22%
PEBP	January 1, 2010	$ -	$6,810,813	$6,810,813	0%	n/a	0%

Note: Fiscal year 2010 was the second year of prospective implementation of GASB 45, Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans, however, it was the first year CC Communications received an actuarial study separate from Churchill County. Therefore, prior year information is unavailable. Multi-year data will be provided as it becomes available.

*PEBP was closed to new employees effective November 9, 2008. Therefore there is no covered payroll.

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SCHEDULE OF REVENUE. EXPENSES, AND CHANGES IN NET ASSETS – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2011)

	2012			ACTUAL
	FINAL BUDGET	ACTUAL	VARIANCE	2011
OPERATING REVENUE				
Local network services	$ 3,215,000	$ 3,025,815	$ (189,185)	$ 3,217,035
Network access services	5,137,500	4,395,637	(741,863)	5,023,974
Interstate pooling revenue	3,800,000	3,984,915	184,915	3,325,872
Miscellaneous revenue	799,000	1,148,078	349,078	906,850
Uncollectible revenue	(20,000)	(9,062)	10,938	(17,172)
Total Operating Revenue	12,931,500	12,545,382	(386,118)	12,456,559
OPERATING EXPENSES				
Plant specific operations	2,293,910	2,249,613	44,297	2,276,111
Plant nonspecific operations	1,300,544	1,406,256	(105,712)	1,340,354
Customer operations	1,066,871	1,017,305	49,566	1,053,148
Corporate operations	2,531,405	2,185,328	346,077	2,272,442
Payments to County in lieu of taxes	1,256,365	1,256,365	-	1,351,558
Depreciation and amortization	2,922,698	2,844,203	78,495	2,529,728
Total Operating Expenses	11,371,793	10,959,071	412,722	10,823,341
Operating Income (Loss)	1,559,707	1,586,312	26,605	1,633,218
NONOPERATING REVENUE (EXPENSE)				
Interest income	5,500	16,397	10,897	16,673
Interest expense	(44,263)	(44,887)	(624)	(46,299)
Nonregulated income	650,000	814,956	164,956	700,180
Nonregulated expense	(395,353)	(546,398)	(151,045)	(408,980)
Miscellaneous income	-	1,423	1,423	1,368
Payments to County in lieu of taxes	(1,186,115)	(1,186,115)	-	(832,515)
Donation of community emergency services	(39,600)	(33,000)	6,600	(103,207)
Total Nonoperating Revenue (Expense)	(1,009,831)	(977,624)	32,207	(672,780)
Income (Loss) Before Transfers	549,876	608,688	58,812	960,438
TRANSFERS				
CC Communications - Long Distance	-	-	-	2,200,000
CC Communications - Wireless	-	-	-	12,000,000
Total Transfers	-	-	-	14,200,000
Change in Net Assets	$ 549,876	608,688	$ 58,812	15,160,438
NET ASSETS, July 1		50,053,006		34,892,568
NET ASSETS, June 30		$50,661,693		$50,053,006